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Food Processing Sector Report

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Report Highlights:

During 1999, Ecuador's economy suffered a dramatic slump which severely retarded imports of food processing ingredients. In addition, unstable exchange rates have increased third countries' market share in a price dominated market. The fiercest third country competition is from Colombia, Chile and Argentina.

Includes PSD changes: No
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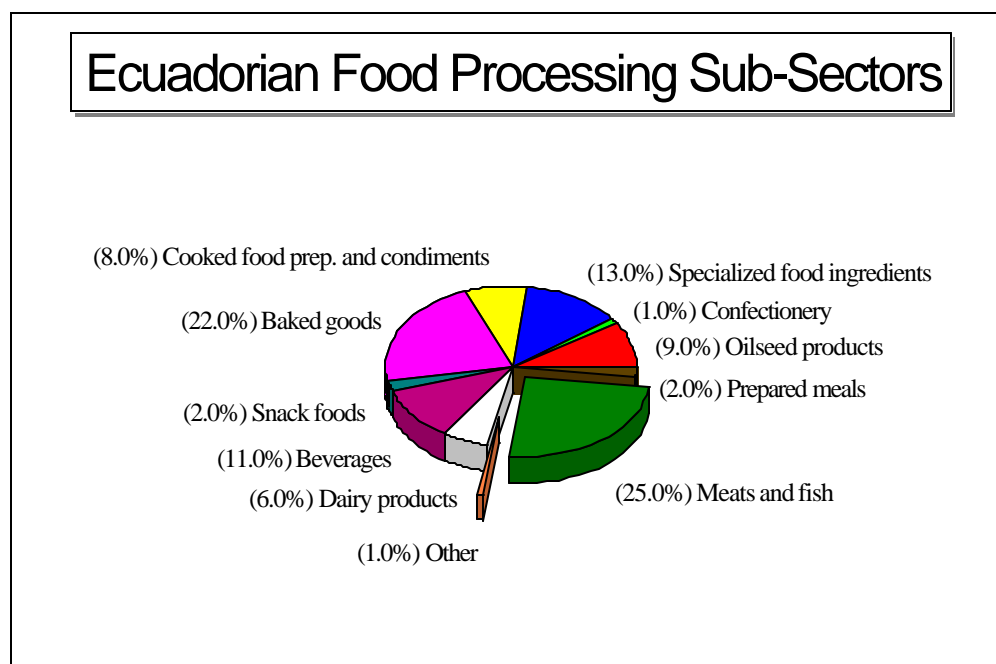
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1. MARKET SUMMARY

Due to a growing economic crisis and sharp devaluation of the Sucre starting in September, Ecuador's food processing sector shrank 9% in 1999. In the early 1998, there were around 450 companies in this sector with a total production of \$4 billion, representing approximately 20% of Ecuador's GNP.

According to the last industrial census reported in 1997, consumption of materials used by the food processing sector reached \$2.4 billion, while in 1996 it was \$ 2.05 billion. This translates into a market size increase of \$ 350 million. Total imports of food ingredients have remained constant between 1997 and 1998, and continue to come principally the United States, Colombia, Chile and Argentina.

Currently, Ecuador's food processing industry is divided into eleven sectors: meats & seafood, baked goods, specialized food ingredients, beverages, oilseed products, cooked food preparations and condiments (dry goods), dairy products, snack foods (including chocolate), prepared meals (including sausages), confectionery products, and prepared fruit and vegetables.



Most food ingredients are imported into Ecuador without restrictions , but sometimes they face sanitary restrictions mainly obtaining the Sanitary Register. Every importer needs this permission which, depending

of the type of product to be imported and it's processing level, will be issued by the Ministry of Agriculture or the Ministry of Health.

Advantages and challenges facing U.S. products in Ecuador

ADVANTAGES	CHALLENGES
Specialized high quality food ingredients demand is growing up due to high increase of local canned production of both fruit and vegetables.	Colombia, Chile and Argentina present a great competition to U.S. products because of good quality and lower prices.
Increase of fast food restaurants and other U.S. franchises is an opportunity to export food ingredients to Ecuador.	The time necessary to obtain the sanitary certificate in order to introduce new products in the market is very long and complex.
The rate of population growth increases at a sustainable level, which means that processed food demand grows constantly.	More than 50% of population is living in poverty and their income doesn't permit them to consume imported products.
Imported U.S. products are preferred by middle and high income level segments over national products, because of quality and status reasons.	

2. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

A successful entry strategy to the Ecuadorian market shall depend on the targeted sub-sector. As Ecuadorians tend to be price buyers, it may be useful to evaluate the competitive position of the American exporter regarding price. The fact that the majority of consumers have low incomes dictates that Ecuadorian food industries look for cheaper ingredients and prime materials.

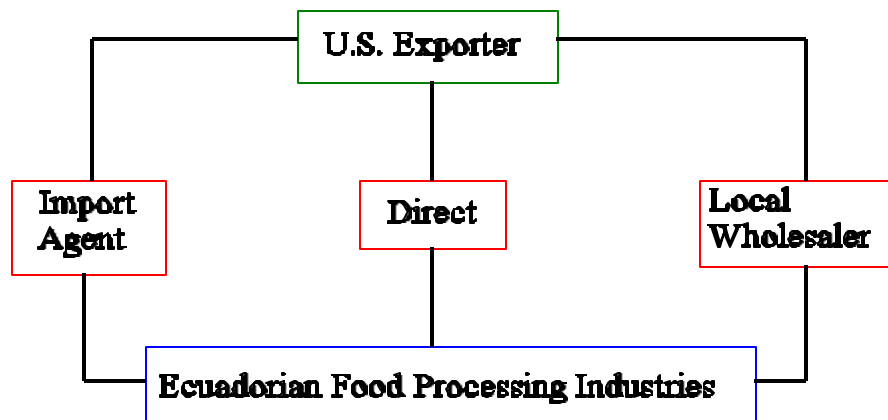
Also, a new-to-market American exporter often choose to work with a well-known and experienced import agent. This local representative will be able to provide market knowledge, up-to-date information and guidance on business practices and technical service. It is recommended to consider that commercial contacts shall be made at least one year before the expected date of entry to the market, which is the estimated time it takes to obtain food & food ingredients import sanitary permits. The chosen agent could take care of most of these bureaucratic procedures for importations.

Working with a large local wholesaler could be very useful if the U.S. exporter is aiming for mass consumption markets and if its export volumes are big.

The FAS Office in Quito maintains current listings of Ecuadorian importers, and is ready to provide such information to any U.S. exporter seeking commercial opportunities in Ecuador.

B. Market Structure

Some Ecuadorian processors buy their production inputs directly from foreign exporters. They choose to open a direct channel with the exporter when there is no representative or exclusive agent from the offering enterprise, or when this last one has no limits regarding quantities (which is a less common situation). When this is not possible, Ecuadorian processors look for a wholesale local agent who is able to fulfill their needs, or an offering company representative such as an import agent. The function of a local intermediary is important in the case of middle and small processors because it can give advice regarding adoption and application of new specialized inputs for food production.



Except for large companies, imports are managed in the market mainly by national representatives who know the characteristics of the demand, and have established contact with the industries. Large enterprises' procurement is in the first place, marked by purchasing directly from the producer or foreign exporter (American supplier if that is the case).

Most companies have their own distribution chain, which include even the minor distributors, but trying to reach a mass consumption, they generally charge the sale to the supermarkets and small marts.

C. Company Profiles

There is significant variation among sub-sectors in the market behavior. There are sub-sectors that show a stronger dynamics in international markets such as those of fish, snacks & flavors (including coffee and chocolate); and prepared fruit & vegetables (an emerging sub-sector which enjoyed 16.7% growth in 1998). Others have experienced increased growth such as baked goods (3.7% growth in 1998) and oilseed products (2% growth). It is important to consider that 94% of processed foods consumed in Ecuador are manufactured locally.

Eight of Ecuador's 456 food processing companies in Ecuador handle 15% of the production, and participate in closely related sub-sectors. For example, Nestle produces dairy products, prepared vegetables, baked goods, confectionery, snack foods, dry goods and prepared meals. Whereas Nestle is an international company, the other seven are national firms.

From these eight large companies, Pronaca, Nestlé, Danec and those belonging to Supermaxi Group are known to offer an assorted variety of products based more in quality than in prices. "La Favorita", and Danec produce high quality goods, while "Real", "La Troncal" and "Industrial Molinera" make cheap products for the low-income level market. The following chart summarizes the food processing sector as a whole by sub-sector:

OVERVIEW OF ECUADOR'S FOOD PROCESSING SECTOR				
1998				
Food Processing Industry Sub-Sector	Number of Firms	Sales in US dollars (Thousands)	Share of Processed Food Sales	Estimated Growth (1998)
Baked goods	49	519,200	22.2%	3.7%
Beverages	63	261,091	11.1%	1.9%
Confectionery products	12	14,282	0.6%	-5.4%
Dairy products	20	130,581	5.6%	-8.3%
Dry goods and condiments	84	190,837	8.1%	1.4%
Meats & fish	127	621,303	26.5%	0.3%
Oilseed products	8	206,325	8.8%	2.0%
Prepared fruit & vegetables	16	9,322	0.4%	16.7%
Prepared meals	25	44,559	1.9%	1.8%
Snack foods	15	43,464	1.9%	1.5%
Specialized food ingredients	41	302,417	12.9%	-5.1%
TOTAL	460	2,343,381	100.0%	0.4%

ECUADOR Profiles of Major Food Processing Companies				
Company Name and Type of Food Processor	Food Sales, 1998 (\$ Million)	End-Use Channels (Retail vs. HRI Food service)	Production Location (domestic vs. off-shore, JV)	Procurement Channels
Nestlé Ecuador S.A. (Dairy products, prepared vegetables, baked goods, confectionery, snack foods, dry goods, prepared meals)	101	Retail and HRI	Ecuador (4), Chile (6), Colombia (3), Venezuela (2).	Direct
Pronaca (Meats and poultry, prepared fruits and vegetables, oilseed products, dry goods, prepared meals)	90	Retail and HRI	Ecuador (3)	Direct
La Favorita (oilseed and oil products)	79	Retail	Ecuador (1)	Direct
Real (fish, prepared meals, dry goods)	72	Retail	Ecuador (2)	Direct, importers
Ingenio La Troncal (specialized food ingredients: sugar)	53	Retail	Ecuador (1)	Direct and wholesalers
DANEC (oilseed products)	53	Retail	Ecuador (1)	Direct
Industrial Molinera (Dry goods: powdered wheat, oats)	54	Retail	Ecuador (2)	Direct
Supermaxi Group (meats, bakery)	44	Retail and HRI	15 (Quito) 6 (Guayaquil) 2 (Cuenca) 1 (Ambato)	Direct

			1 (Ibarra)	
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D. Sector Trends

In the short term, products will face stiff challenges to maintaining their presence in the market, due to the strong economical recession that is presently affecting Ecuador's economy. Once the economic crisis is over, it is expected that the food processing sector will be more dynamic but still competitive due to the fact that the country has a relatively competitive agricultural sector that could provide much of the necessary raw material for food production.

Processed product exports, specially to Peru, are expected to continue growing (\$100 million in 1998 and more than \$200 million in 1999). The need of added value generation allows the sector to increase its benefits instead of those proceeding from the commercialization of primary agricultural products. It is projected that the sub-sectors with the strongest growth will be prepared fruit and vegetables, seafood (except shrimp) and confectionary products.

Domestic demand is expected to increase due to growing urbanization and changes in preferences of consumer towards modern food. The main challenges will continue to be low consumer buying power, and slow rate of change in consumer preferences. On the other hand, the global trend towards natural food consumption is beginning to reach even Ecuador.

Briefly, there are three possible scenarios for the processing food sector:

- Additional exports to regional markets which will increase demand for raw materials and intermediate agricultural imports.
- Exports will grow little, and the focus will remain on the small and low-income Ecuadorian market, which will limit demand for natural and high quality products for costs reasons.
- Many of the Ecuadorian processing industries will close due to the economic crisis affecting the country, and also because of the currency devaluation which increases the cost of imports and production.

Industry sources indicate that the first scenario is not likely to occur in the short term, and the reason is the low-competitive situation of Ecuadorian industries against other Latin-American companies. Scenarios two or three are more likely to occur in the short run given Ecuador's economic situation.

3. COMPETITION

Products coming from the U.S. may have important advantages regarding trademarks, packaging and quality standards, but they face barriers such as tariffs, which can make them very non-competitive with products from nearly Latin American suppliers.

Specialized high-technology ingredients, such as colorings, artificial flavors, preservatives, emulsions and others originated in the U.S., face practically no competition problems with Ecuadorian industries, but do face with those from Germany, Mexico and Chile.

4. BEST PRODUCT PROSPECTS

A. Products Present in the Market Which have Good Sales Potential

- Breakfast cereals, which compete with Chilean, Venezuelan, and Colombian industries.
- Wines at low price have good acceptance. They will have to compete with Chilean wines.
- High quality pet food will turn competitive as far as prices are concerned.
- Beverages, due to light competition. In case of soda, there is a monopoly (Coca Cola) and in the case of beer an oligopoly (Bavaria and a national producer).
- Best product prospects among basic food ingredient input, are preservers and additives for baked, cooked and canned products. This market is approximately of US 142 million.
- Ingredients such as powder milk, powder cream, milky serum, condiments and seasoning, and premixed foods for animals are products which have good sales potential.

B. Products not Present in the Market in Significant Quantities but Which Have Good Sales Potential

Although they have a limited presence in market, some products such as mixtures or additives that simplify cooking procedures have strong market potential in Ecuador. Some examples of these products are dehydrated sauces, pre-cooked paste, etc.

C. Products Not Present Because They Face Significant Barriers

The most important barrier for U.S. products in Ecuador are the size of the market and a cheaper but poor quality local production.

Therefore, there are certain products that probably will not do well in the market:

- Meats and fish of all kind, because the existent variety is already extensive and relatively inexpensive and because abundant local supplies of this \$621 million market.
- Canned fruits and vegetables, due to the extensive development of the national and regional production (Chile), specially palmito, corn, asparagus, beans, bananas, jam, fruit juice, ketchup, mayonnaise and guava.
- Oilseed products because of the existence of a developed processing industry. On the other hand, much of the prime materials (soybeans) for this industry are imported from the United States.

5. POST CONTACT AND FURTHER INFORMATION

For more information regarding U.S. agricultural exports, please visit de FAS Home page:
<http://www.fas.usda.gov>.

If you have any questions or comments regarding this report or need assistance on exporting high value food products to Ecuador, please contact the Foreign Agricultural Service in Quito at the following address:

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Fax: 593-2-506283
e-mail: agquito@fas.usda.gov

6. INFORMATION SOURCES:

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